



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

July 3, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

A summary of the economic analyses supporting privatization of the Fort Rucker, Alabama, water and wastewater distribution systems is enclosed. Privatization is expected to result in an estimated annual cost avoidance of \$920,789 for the water system and \$1,779,334 for the wastewater system when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the water and wastewater utility systems and award a fifty-year contract for utility services at Fort Rucker, Alabama, to the American Water Services Inc. 21 days after the receipt of this letter.

Sincerely,

A handwritten signature in black ink, which appears to read "for Don Spigler", is written over the typed name "William A. Armbruster".

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



**Department of the Army
Fort Rucker, Alabama
Privatization of the Water and
Wastewater Utility Systems**

Economic Analyses Summary

June 2003

Executive Summary: The economic analyses conducted for the water and wastewater utility systems at Fort Rucker each demonstrate that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the water system resulted in an estimated annual cost avoidance of \$920,789 and the economic analysis for the wastewater system resulted in an estimated annual cost avoidance of \$1,779,334 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility Systems:

Water System: The Main Post area is served by seven active wells ranging from 425 gallons per minute (gpm) capacity to 800 gpm capacity. Chlorination facilities are located at each well (with safety equipment) for treatment of the groundwater. Treated water is subsequently pumped directly into the distribution system. The water distribution system consists of the following:

- Water distribution system: 388,600 Linear Feet (pipe diameters range from 2 through 16 inches)
- Pumps at water treatment plant: 4 (approximately 1,000 gpm each)
- Aboveground Water Tanks: 2 (1.0 million gallon total capacity)
- Belowground Water Tanks: 2 (1.0 million gallon total capacity)

Wastewater system: All wastewater produced on the Fort as well as that from Hanchey, Lowe and Knox Army Heliports is treated at the Fort's 2.5 million gallon per day activated sludge wastewater treatment plant. The wastewater Main Post collection system consists of the following:

- Wastewater Collection System: 300,140 Linear Feet
- Wastewater Manholes: estimated at 1044
- Lift Stations: 9

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the water and wastewater utility systems. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on water and wastewater utility systems.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility systems in return for conveying the systems to the contractor. The Government determined fair market value is \$10,335,751 for the water system and \$16,681,249 for the wastewater system.

Procurement History: The Government received proposals in April 2002 from two separate contractors, American Water Services Inc. (AWS) and U.S. Filter Operating Services (USFOS) in response to the solicitation for potential privatization of the Fort Rucker water and wastewater systems, which was issued by the Defense Energy Support Center in September 2001. The Source Selection Evaluation Board met in April 2002 and determined that both offerors were capable of meeting

the technical requirements of the Request for Proposal. Each offeror submitted five successive revised proposals with the first four in September 2002, December 2002, January 2003, and February 2003 respectively; with the fifth and final revisions submitted April 2003. The Government selected American Water Services as the best value offeror in May 2003.

Life Cycle Cost Analysis (LCCA): The privatization alternative was evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of the two alternatives were developed utilizing Utilities Privatization Economic Analysis Support Tool (UPEAST) 5.0. The results of the LCCA are summarized in the following tables:

Water System:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 36.4 M	\$ 2.2 M	-	-
Contractor Ownership	50	\$ 21.0 M	\$ 1.3 M	\$ 0.9 M	42.2 %

Wastewater System:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 63.6 M	\$ 3.8 M	-	-
Contractor Ownership	50	\$ 33.9 M	\$ 2.0 M	\$ 1.8 M	46.7 %

Privatization of the Fort Rucker water and wastewater utility systems under AWS' proposal is expected to result in an estimated annual cost avoidance of \$920,789 for the water system and \$1,779,334 for the wastewater system when compared to the respective cost of continued Government ownership and operation.

Conclusions and Recommendations: Privatization of Fort Rucker's Water and Wastewater Utility Systems is economical. Additionally, the following findings are provided:

1. The privatization of Fort Rucker's Water and Wastewater Utility Systems will eliminate the need for the Installation to perform these functions and will allow a firm whose competence is water and wastewater utility systems operation and maintenance to operate and maintain the systems.
2. The privatization of Fort Rucker's Water and Wastewater Utility Systems assures future upgrades and additions to these systems.
3. The privatization action will be a cost-effective means to provide safe and reliable water and wastewater utility services to the Installation.